

Corporate Valuation in Mergers and Acquisitions

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Abstract

Corporate Valuation Cases is a one-semester elective course which primary objective is to give students some useful insight into the practicalities of investment banking profession.

The course will further strengthen financial evaluation skills obtained by student in the previous courses and will focus on practical aspects of valuation models applied to various industries and transaction types. The course will start with some overview of modern accounting practice under IFRS (and GAAP), as applied to an investment banker's work.

It will also provide students a brief overview of the European and US securities regulation in terms of the major areas of awareness in the IB environment. This will involve discussing typical disclosure requirements and common bankers' duties in a banker-client relationship and corporate governance. An overview of the major areas of awareness when concluding corporate transactions under the English law will be provided.

The course material will be based on selected sections of the required reading list and optional supplementary readings to be provided to the students by the ICEF. Most of the sessions will be concluded by practical interactive cases involving multiple aspects of the course material, to be submitted by the next class session. Throughout the course, the cases will increase in complexity from qualitative analysis to practical valuation models and actual deal making by students.

The course will be taught and evaluated in English.

Prerequisites:

A Corporate Finance course or equivalent. Investment Analysis course or equivalent. Basic accounting course.

Learning Objectives and Outcomes

The purposes of the course is to give the students basic knowledge and practical skills required at the entry level to the investment banking and consultancy professions. Considerable amount of practical exercises will allow students to practice their skills across various industries and different advisory engagement types that they will likely to see in their initial years in the profession. During the course, practical cases will increase in the level of complexity from understanding information flow through financial statements to conducting corporate valuations in the light of specific transactions. In the early cases students will be expected to produce simple IFRS financial statements themselves by posting journal entries reflecting economic events of the case into accounting ledgers. In the following coursework students will analyze IFRS financial statements of a public company with a view to prepare evaluation models on the basis of publicly available information, thus simulating work of an equity research analyst. Students will learn how to exercise their professional judgment in analyzing the company performance at large, and how

it is presented in the financial statements. Students will calculate some of the most common financial ratios and use them building discounted cash flow models. Students will understand basic elements of

typical due diligence process in specific industries, such as oil & gas and real estate. They will learn specific terminology, valuation techniques and value drivers used in these industries. Common spreadsheet building techniques, sensitivity analysis, will also be taught, as well as the use of third party competent persons reports. In the concluding part of the course students will learn how to apply these techniques to specific transaction types and use them in initial public offerings, share purchase negotiations, etc. Context of securities regulation and basic elements of contract law will be introduced. Main focus of the case work will be on negotiations between students' teams, where students will have a plenty of practical deal making. Throughout the course students will have need to conduct their own independent Internet research on various aspects of the case work and learn how to work with large amounts of nonadapted professional literature.

The student should be able to apply professional knowledge and skills acquired while studying the course in practical areas, including academic research, work in financial institutions, industry, state governance.

Methods of Instruction

Weekly lecture sessions

Self-study reading and written assignments or cases during the week

Seminar sessions on selected cases

Grading System and Knowledge Assessment

Individual and team cases will produce the largest part in each student's grade in the course.

Assessment of the cases will be made on a qualitative and quantitative basis. Feedback will be provided in returned assignments and during seminar discussions.

Cumulative sum of scores for individual and teamwork Cases will be 65% used in lieu of interim assessment with the total weigh of

Final Exam (120 min, short essay questions and problems) 30%

Discretionary bonus (to be assigned by the lecturer to selected 5% students based on their participation in class discussions, creativity in teamwork, etc.)

No separate mid-term examination will be administered, thus students are advised to work diligently with their casework from day one. Normal distribution ("bell curve") adjustment bias will be applied to the entire class after the final exam, prior to assigning final course grades.

Sample materials for knowledge assessment are available in ICEF Information system at <https://icef-info.hse.ru>.

Required reading

- Bob Vause, Guide to Analyzing Companies. The Economist in Association with Profile Books LTD, 2005
- K. Thomas Liaw, The Business of Investment Banking, John Wiley and Sons, Inc. [1999+]

Optional reading

- Barry J. Epstien, Eva K. Jermakowicz, IFRS 2007: Interpretation and Application of International Financial Reporting Standards

Special Equipment and Software Support

Laptop, projector, Internet connection

MS Word, MS Excel

Course plan

Introduction to Investment Banking profession

Organizational structure of an investment bank. Typical activities performed by investment banks: sales & trading, research, M&A, lending and deposits. Banking capital and risk.

Review of accounting and financial statements analysis

The Framework, IFRS Summaries, Information flow. Principles, accruals, matching. Posting of transactions. Ledgers. Building financial statements.

Reading and interpreting financial statements. Assets. Liabilities. Impairment. Notes to the financial statements.

Fair value concept in accounting. Special issues of fair value accounting for investment properties, real estate, depleted asset industries, mergers and acquisitions. Investments. Business Combinations. M&A accounting. Goodwill. Leveraged Buyouts.

Financial statements analysis. Financial and industry ratios.

Valuation methods

Multiples analysis. Review of DCF. CAPM and various modifications. Ibbotson yearbook. Emerging markets. Information efficiency theory. Equity research vs. Corporate finance perspective.

Valuation of a major retail business in Russia. Evaluation of competitive growth strategy, capital expenditure, business expansion. Seasonal trends and crisis effect. Modeling working capital.

Valuing oil and gas assets. Oil price projections. Netbacks. IFRS vs. GAAP reporting. Accounting of subsoil properties. Reserves categories. Competent Person's Reports. Production projections. Drilling schedules. Well performance. Taxation in Russia, MET, Export Duties, VAT.

Real estate valuations. Accounting guidelines. Percentage of completion method. Interpreting financial statements. Fair value accounting and Net Asset Value appraisal. International Valuation Standards guidelines. Recent crisis issues.

Investment Banking Process

Mergers and Acquisitions. Due diligence. IPO processes. Contracts. SPA components. Representations and warranties. Securities regulation. Ethics. Role of banks. Fairness opinions. Special committees. UK and US Securities Regulations. Deal making and disclosure. Leveraged Buy-Out models, financing of M&A transactions.